

**TESTIMONY OF
D. JOE MAREADY**

TESTIMONY OF D. JOE MAREADY

FOR

A. D. HARE WATERWORKS, INC.

DOCKET NO. 2001-137-W

IN RE: PROPOSED INCREASE IN RATES AND CHARGES

Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is D. Joe Maready and I reside at 205 Nautical Shores Drive, Leesville, S.C. 29070

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR EXPERIENCE?

A. I received a B.S. Degree in General Business from the University of North Carolina, Chapel Hill, North Carolina, and have taken over thirty semester hours in Accounting at the University of South Carolina. I was employed with the Public Service Commission for almost twenty-nine years. During that time I testified in excess of fifty (50) Rate Cases involving electric, telephone, water, sewer, radio common carriers, general commodities, bus and moving and storage companies. After my retirement in July 1999, I began working with Public Storage Company where I worked as an Assistant Property Manager and occasionally substituted as Property Manager at the other nine properties throughout the Metro Columbia Area. I also testified for the Company in the Dowd Water Systems rate cases..

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING A. D. HARE WATERWORKS, INC.?

A. I have contracted with the Company to present the financial statements into evidence for a

proposed increase in its rates and charges and Tap Fees.

Q. PLEASE EXPLAIN.

A. Attached to my testimony are Company Exhibits A and A-1 entitled "Operating Margins" and "Explanation of Accounting and Pro Forma Adjustments" respectively. The test period is the twelve months ending December 31, 2000. Column (1) of Exhibit A shows the 'per books' figures for the test year. The Staff of this Commission has traditionally shown per-books figures regardless of the correctness of revenues and expenses and the resulting Operating Income which is 0.48% shown in column (1). I have done the same here.

Since the time the Company filed its "Information to be filed with the Commission for an increase in water rates and charges" on February 12, 2002, a company employee discovered that a loan was made to the company by the owner, the loan was counted as revenues as if it came from the customers and the income for the year was incorrectly shown as positive \$825. As a matter of fact, a corrected statement would show a loss for the test year of \$7,175 because of that \$8,000 loan. This correction is shown as adjustment #2 on Exhibit A-1.

All adjustments in Column (2) are explained separately in my attached report..

After the Adjustments in Column (2) are added to the per books figures in Column (1), revenues for the year are \$149,773 and expenses are \$167,425, producing an operating loss for return of (\$17,652) shown on line 22. Operating Margin (Loss) is (11.79%).

Adjustments (18) through (21) show the effect of the proposed increase in Column (4). The company is requesting rates and charges that will produce additional revenues of \$54,471 (Column (4), line (8), company exhibit A). Revenues increase to \$204,244 and total expenses, after gross receipts tax and income tax of \$7,571, are \$174,996 for a Net Operating Income for Return of \$29,783. After Customer Growth of \$535, Total Income for Return is \$29,783 for an Operating Margin of 14.58%.

Q. WOULD YOU BRIEFLY EXPLAIN THE REMAINDER OF YOUR EXHIBITS?

A. Yes.

Exhibit A-2 shows Customer Growth using the historical methodology of average customers.

Exhibit A-3 is Cash Working Capital for use on Exhibit A, Line 33, Rate Base. The only purpose of showing rate base is to show the proposed treatment of Tap Fees and Tap Cost.

Exhibit A-4 shows the Tap Fee Revenues and related costs of taps collected since 1977 used in adjustments (16) and (17) on Exhibit A, Rate Base, Lines (36) and (37)

Exhibit A-5 is the computation of rates and charges proposed in this rate case of \$54,471.

Exhibit B is the compilation of costs of tap fees that the company is proposing in this hearing.

Exhibit C, Comparative Income Statements for the calendar years 1999 and 2000.

Exhibit D, Comparative Balance Sheets as of December 31, 1999 and 2000.

Q. EXPLAIN YOUR TREATMENT OF TAP FEE CONTRIBUTIONS AND THE COMPANY'S TAP COSTS IN EXHIBIT A-4.

A. In the Midlands rate case, Docket No. 96-160-S, Order No. 97-517, dated June 17, 1997, at page 9, the Order reads:

“The Commission believes that the expenses associated with installing the taps should be excluded from cost of service. The Commission has removed tap fee revenues from operation revenues as tap fees are items which properly should be capitalized. As an item that should be capitalized, the Commission finds it appropriate to remove from operating expenses the expenses associated with making the taps.....Therefore, the Commission believes and concludes that expenses associated with making the taps should be removed from operating expenses in an amount equal to the tap fees collected.”

The Company is proposing the same procedures in this case to these two very close financial related expense and rate base items. Furthermore, I am proposing what I call the “zero” effect in rate base. Exhibit B demonstrates how the tap fees and/or contributions of \$77,600 are amortized over twenty-five years. This equates to a 4% per annum depreciation rate approved

by this Commission in the last Order in 1992. It might be questionable whether the costs and contributions should be amortizable or not, but, if not, the net effect on rate base would still be the same. We would still propose that equal amounts be deducted and equal amounts be added to rate base which would still give the same "zero" effect . I would like to make reference again to Company Exhibit B, Line 16, showing Contribution in Aid of Construction of \$37,100. This amount coincides with the last rate case, Docket 90-621-W, Staff's Exhibit A, where staff shows Contributions of \$37,100. Since the test year in that case, based on December 31, 1990, we have merely brought contributions and tap cost up to the present test year December 31, 2000.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

A. D. HARE WATERWORKS, INC.

DOCKET NO. 2001-137-W

REPORT OF COMPANY WITNESS JOE MAREADY

BEFORE THE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

JUNE 12, 2002

REPORT OF WITNESS JOE MAREADY
BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2001-137-W
A. D. HARE WATERWORKS, INC.

SYNOPSIS

| Operating Margins (Losses) | |
|--|----------------------|
| Per Books----- | -----0.48% |
| After Accounting and Pro Forma Adjustments..... |(11.79%) |
| After Proposed Increase:..... |14.58% |

REPORT OF WITNESS JOE MAREADY
BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2001-137-W
A. D. HARE WATERWORKS, INC.

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REPORT OF WITNESS JOE MAREADY
BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2001-137-W
A. D. HARE WATERWORKS, INC.

ANALYSIS

A. D. Hare Waterworks, (hereinafter "A. D. Hare" or "the company") is located at 815 A. D. Hare Lane, Pinopolis, S. C. 29469.

The Company is operating under rates and charges approved, in 1992, as follows:

| | |
|-------------------------|-----------------------------|
| Monthly Service Charge: | \$8.00 |
| Commodity Charge: | \$2.10 per thousand gallons |
| Reconnection Fee | \$30.00 |
| New Customer Charge | \$20.00 |

The current tap fee of \$300 was approved in 1985.

The test period in this rate case is the twelve months calendar year ending December 31, 2000.

At the beginning of the test period, the company had 590 customers and 613 at the end of the test period.

Exhibits relative to the Company's application are as follows:

COMPANY EXHIBIT A: OPERATING MARGINS (LOSSES): This exhibit demonstrates the company's operating Experience and Operating Margins for the test year ended December 31, 2000, and the accounting and pro forma adjustments which are necessary to correct or normalize the company's test year operations both before and after the effect of the requested increase. On per-book operations in column (1), revenues of \$170,453 and expenses of \$169,628 produce Net Operating Income for Return of \$825 for an Operating Margin of 0.48%. After adjustments in column (2),

Operating Loss in column (3) is (11.79%). Column (4) shows the proposed increase in revenues of \$54,471. After the addition of the proposed increase is added to the adjusted figures in Column (3), operating margin in column (5) increases to 14.58%.

COMPANY EXHIBIT A-1, EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS:

In the ensuing adjustments, I have attempted to maintain procedures advanced by prior decisions of this Commission along with adjustments that maintain the required standards of known and measurable changes. The company's adjustments are explained as follows:

Adjustment Number (1), Monthly Service Fees, \$123. During the preparation of this report, I counted each customers' consumption twice by using the beginning and ending meter readings to attain the annual consumption. In about half of the customers, monthly totals were also added to check these totals with meter reading totals. Total consumption for the year totaled 42,734,340 gallons. Using 42,734 units at the present rate of \$2.10 per thousand gallons produces annualized commodity charges of \$89,741. Annualized basic facilities charges of \$57,792 was attained by multiplying the average number of customers of 602 by the current monthly charge of \$8.00 times twelve months. Adding \$57,792 plus \$89,741 equals total annualized revenues of \$147,533 less per-book revenues of \$147,410 gives an adjustment of \$123.

Adjustment Number (2), Loans from Stockholders, (\$8,000): There were four (4) loan transactions from the owner to the company during the test year:

| | |
|-------------|--------------------|
| January 14 | \$2,000 |
| June 15 | \$(500) Repayment |
| December 1 | \$1,500 |
| December 14 | <u>\$5,000</u> |
| Total: | <u>\$8,000</u> |

When the company forwarded the monthly revenue and expense totals over to the Accountant, who compiles the annual statements and income taxes, the loans were not picked up as "Loans from

Stockholder” but were included as ordinary income to the company. This adjustment eliminates those loans from the company’s revenues for the test period. Please note that had the books been corrected for these advances, the company would have had a loss of \$7,175 for the test period.

Adjustment Number (3), Tap Fee Revenue of \$3,900. During the test year, the company was paid for, and bore the costs of, performing thirteen (13) tap installations. The company proposes that the tap fee contribution of \$300 each from the rate payer be excluded from revenues as in prior cases. (See Adjustment Number (6) for the expense portion of installations).

Adjustment Number (4), Other Charges (DHEC Fees), (\$8,903) and Adjustment Number (8), Assessment Taxes (DHEC), (\$8,028). The assessment by the Department of Health and Environmental Control (DHEC) for water testing and the related company assessment to the rate payers are not regulated by this Commission and are, therefore, eliminated.

Adjustment Number (5), (Part one of this adjustment) Operation Expense, Adjustment to Wages and benefits, \$3,861. Salaries and the related Social Security benefits were annualized based on the wage scale as of November 2001.

Adjustment Number (5), (Part two of this adjustment) Operation Expense, Rate Case Expense, \$1,100 Of the total rate case expenses of \$3,300 incurred as of this date, company proposes to amortize this amount over a three year period at \$1,100 per year.

Adjustment Number (6), Maintenance Expense, Tap Fee Costs, (\$3,900). In adjustment Number (3) above, Tap Revenues of \$3,900 was removed from total revenues. Company agrees that the Tap Costs of \$3,900 should also be removed from operating expenses.

Adjustment Number (7), Depreciation Expense, Annualized, \$2,308. The Company annualized depreciation based on plant-in-service of \$12,548 as of the end of the test year ended December 31, 2000. The per book amount was \$10,240. All costs of meter installations since 1977 were removed from plant before this adjustment was made. (See also adjustment (16) and (17) in rate base)

Adjustment Number (9), Taxes - Other than Income, \$1,648. The Growth Receipts Factor for 2001

was 1.1%. Applying this factor to the adjusted revenues of \$149,773 from Company Exhibit A, Column (3), line 8, the assessment for the Public Service Commission is \$1,648.

Adjustment Number (10), Other Revenues and Expenses, Contributions, (\$100). During the test year the company rented out some of its machinery. The net revenues produced by this entry is \$2,410. The company has determined that this total net revenue account should be a contra account against all operating expenses since all related expenses to this plant are included throughout operating expenses, e. g. maintenance, depreciation, property taxes, etc. Included in this account, though, are contributions of \$100. Had this amount not been netted within this account, actual "Other Revenues and Expenses" would have been \$2,510. The company, therefore, proposes that \$100 should be added back to the per-book amount to equal a negative (\$2,510) against all other operating expenses.

Adjustment Number (11), Interest On Customer Deposits, \$1,176, and Adjustment Number (15), Customer Deposits (In Rate Base), \$1,176. At the end of the test year, the company had an outstanding balance of \$9,800 in Customer Deposits. Applying the 12% interest rate to the balance gives interest expense of \$1,176 to be added to operating expenses and to Customer Deposits in rate base.

Adjustment Number (12), Interest on Debt, (\$267). As an attrition adjustment, this Commission has allowed debt to be annualized at the most recent period of time after the test period. The debts and interest rates are as follows:

| | <u>PRINCIPAL</u> | <u>RATE</u> | <u>INTEREST</u> |
|----------------|------------------|-------------|-----------------|
| Backhoe: | \$35,300 | .0975 | \$3,442 |
| Ditch Witch | \$26,000 | .0975 | \$2,535 |
| Debt to Owners | \$17,000 | .0500 | <u>\$ 850</u> |
| | | | \$6,827 |

Deducting the interest, per books, for the year of \$7,094, results in an adjustment of (\$267).

Adjustment Number (13), Gross Utility Plant in Service, (\$20,029) and Number (14), Depreciation Reserve, (\$4,551). The company proposes to eliminate all meter installation costs since 1977 of \$20,029 and the related Depreciation Reserve of \$4,551 because the customer has already contributed to the total costs of this portion of the plant.

Adjustment Number (14), second part, Depreciation Reserve, \$2,308. In adjustment number (7), depreciation was annualized based on end-of-year plant. The amount of the adjustment is added here to the Depreciation Reserve account.

Adjustment Number (16), Costs of Taps incurred since 1977, Net of Depreciation, \$43,324 and

Adjustment Number (17) Contributions-in-Aid of Construction for Meters, Net of Amortization

(\$43,324). In Docket No. 96-160-S, Order No. 97-517, dated June 17, 1997, at page 9, the Commission approved that both revenues and expenses should be removed. The company has made similar adjustments (See Adjustments (3) and (6)). We further believe that, if the revenues and expenses should be removed from any test period, that total revenues and expenses, historically, should be removed. These two adjustments are shown net of depreciation and amortization in Exhibit A-4.

Adjustment Number (18), Monthly service charges--Proposed Increase, \$50,411. The proposed rates are shown in Company Exhibit A-5. In computing the rates, the company used total consumption of 42,734,000 gallons (or, 42,734 units of thousands) and average customers of 602. The present and proposed rates are as follows:

| | <u>OLD RATE</u> | <u>NEW RATE</u> | <u>INCREASE</u> | <u>% INCREASE</u> |
|--------------------------|-----------------|-----------------|-----------------|-------------------|
| Basic Facilities Charge: | \$8.00 | \$9.95 | \$1.95 | 24.38% |
| Commodity Charge | \$2.10 | \$2.95 | \$0.85 | 40.48% |

As shown on the Exhibit, Basic Facilities Charge will produce total revenues of \$71,879 and the Commodity Charges will produce total revenues of \$126,065 for a grand total of \$197,944. After deducting the Adjusted Annualized Monthly Charges from Company Exhibit A, Column (3), Line 2, of \$147, 533, the proposed increase from these rates and charges produce additional revenue of \$50,411.

Adjustment Number (19), Basic Facilities Charges - New, \$4,060. Also shown on this Exhibit are "Basic Facilities Charge - New". There are ten (10) potential customers who are hooked on to paying customers' lines. The metered customers are properly paying the monthly charge and the total consumption charges. It is Company's opinion, though, that the person who hooked into this line

should also pay the monthly basic facilities charges since two residential dwellings should not be fed off the same meter.

The remaining twenty-four (24) customers are in trailer parks. These customers are master metered and pay only one basic facilities charge. The company would like to install meters for each trailer in the mobile home park.

These thirty-four (34) customers would pay the proposed rate of \$9.95 for additional revenues of \$4,060 ($\$9.95 \times 34 \times 12 \text{ months}$).

It might be noted that in the 1992 rate case, the company requested, and was approved for, the above rates and charges. Since the company did not install the meters and start charging the newly approved rates within the ninety-day time period as asserted in the Order, that part of the order was revoked.

Adjustment Number 20, Taxes - Other than Income (Gross Receipts Taxes), \$599.

The proposed increase in this rate case is \$54,471. Based on the most recent gross receipts tax rate of 1.1%, the tax on the increase is \$599. ($1.1\% \times \$54,471 = \599)

Adjustment Number 21, Income Taxes, \$6,972. Income taxes were computed on the proposed revenues using an embedded rate of 19.25% for state and federal taxes. Taxes were computed as follows: \$204,244 total revenues less the gross receipts tax of \$599 less total operating expenses before the increase of \$167,425 = \$36,220 $\times 19.25\% = \$6,972$.

EXHIBIT A-2 CUSTOMER GROWTH: The standard growth factor of using average customers was used in computing customer growth. The Company had 590 customers at the beginning of the test period and 613 at the end of the test period December 31, 2000 for average customers of 602. This average was used in the customer growth factor as well as attaining the proposed revenue in Company Exhibit A-5.

EXHIBIT A-3 CASH WORKING CAPITAL: The only purpose in showing an "Original Cost Rate Base" was to demonstrate the Company's proposed procedure to treat Contributions-in-Aid of

Construction by the homeowners who paid for the tap fees versus the proposed treatment by the company's investment in the tap costs.

EXHIBIT A-4 AMORTIZATION OF TAP FEES AND TAP COSTS: The purpose of this schedule is to demonstrate the net depreciated value of tap fees received from the customers and the net depreciated value of plant that is capitalized costs as a result of installing meters. These figures are used on Company Exhibit A, Rate Base, in Adjustment Numbers (16) and (17).

EXHIBIT A-5 PROPOSED INCREASE: This Exhibit computes the sources of the different proposed annualized revenues from the Monthly Basic Facilities Charges (\$71,879), the Commodity Charges based on consumption (\$126,065) and for the new customers (34) who are not paying the proposed basic facilities charge of \$9.95 (\$4,060). The total proposed increase is \$54,471.

EXHIBIT B PROPOSED TAP COST: The company is proposing to increase tap fee approved in 1985 from \$300 to \$500. This study shows the time allotted for each employee performing a function, the amount of hourly wages paid each employee, the value of the machinery to perform the heavy duty functions and the costs of materials and supplies to install the meters. In some instances, when a connection must be made opposite the side of the road where the main line is located, extra machinery is needed and requires more manpower.

EXHIBIT C COMPARATIVE INCOME STATEMENT: Comparative Income Statements are shown for the twelve months ending December 31, 1999 and for the test year December 31, 2000.

EXHIBIT D COMPARATIVE BALANCE SHEETS: The financial positions of the utility are shown as of December 31, 1999 and the test year December 31, 2000.

A. D. HARE WATERWORKS CO., INC.
OPERATING MARGINS (LOSSES)
FOR THE TEST PERIOD ENDED DECEMBER 31, 2000

COMPANY EXHIBIT A
WITNESS MAREADY

| COLUMN NUMBERS: | | (1) | (2) | | (3) | (4) | (5) |
|-----------------|---|--------------------------------------|----------|----------|---------------------------|--------|-------------------------|
| LINE NO. | DESCRIPTION OF ACCOUNT | PRO FORMA AND ACCOUNTING ADJUSTMENTS | | ADJ. NO. | COMPANY PROPOSED INCREASE | | AFTER PROPOSED INCREASE |
| | | PER BOOKS \$ | \$ | | AFTER ADJUSTMENTS \$ | \$ | NO. \$ |
| 1 | REVENUES: | | | | | | |
| 2 | Monthly Service Fees | 147,410 | 123 | (1) | 147,533 | 50,411 | (18) 197,944 |
| 3 | Loans from Stockholders | 8,000 | (8,000) | (2) | 0 | 0 | 0 |
| 3 | Tap Fees (13 @ \$300 Each) | 3,900 | (3,900) | (3) | 0 | 0 | 0 |
| 4 | Reconnection Fee (36) | 1,080 | 0 | | 1,080 | 0 | 1,080 |
| 5 | New Customer Charge (58) | 1,160 | 0 | | 1,160 | 0 | 1,160 |
| 6 | Other Charges (DHEC Fees) | 8,903 | (8,903) | (4) | 0 | 0 | 0 |
| 7 | Basic Facilities Charges (New = 34) | 0 | 0 | | 0 | 4,060 | (19) 4,060 |
| 8 | Total Operating Revenues | 170,453 | (20,680) | | 149,773 | 54,471 | 204,244 |
| 9 | | | | | | | |
| 10 | LESS: OPERATING EXP. AND TAXES | | | | | | |
| 11 | Operation Expense | 95,004 | 4,961 | (5) | 99,965 | 0 | 99,965 |
| 12 | Maintenance Expense | 43,615 | (3,900) | (6) | 39,715 | 0 | 39,715 |
| 13 | Depreciation Expense | 10,240 | 2,308 | (7) | 12,548 | 0 | 12,548 |
| 14 | Assessment Taxes (DHEC) | 8,029 | (8,029) | (8) | 0 | 0 | 0 |
| 15 | Taxes - Other than Income | 8,056 | 1,648 | (9) | 9,704 | 599 | (20) 10,303 |
| 16 | Other Revenues and Expenses - Net | (2,410) | (100) | (10) | (2,510) | 0 | (2,510) |
| 17 | Income Taxes - State and Fed. | 0 | 0 | | 0 | 6,972 | (21) 6,972 |
| 18 | Interest on Cust. Deposits | 0 | 1,176 | (11) | 1,176 | 0 | 1,176 |
| 19 | Interest on Debt | 7,094 | (267) | (12) | 6,827 | 0 | 6,827 |
| 20 | Total Operating Expenses | 169,628 | (2,203) | | 167,425 | 7,571 | 174,996 |
| 21 | | | | | | | |
| 22 | Net Operating Income for Return | 825 | (18,477) | | (17,652) | 46,900 | 29,248 |
| 23 | ADD: Customer Growth (Exhibit A-2) | 0 | 0 | | 0 | 858 | 535 |
| 24 | TOTAL OPERATING INC. FOR RETURN: | 825 | (18,477) | | (17,652) | 47,758 | 29,783 |
| 25 | | | | | | | |
| 26 | OPERATING MARGINS (LOSSES) | 0.48% | | | (11.79%) | | 14.58% |
| 27 | | | | | | | |
| 28 | | | | | | | |
| 29 | | \$ | \$ | | \$ | \$ | \$ |
| 30 | Gross Utility Plant in Service | 267,678 | (20,029) | (13) | 247,649 | 0 | 247,649 |
| 31 | Less: Depreciation Reserve | 123,084 | (2,243) | (14) | 120,841 | 0 | 120,841 |
| 32 | Net Plant in Service | 144,594 | (17,786) | | 126,808 | 0 | 126,808 |
| 33 | Cash Working Capital (Exhibit A-3) | 17,327 | 133 | | 17,460 | 0 | 17,460 |
| 34 | Materials and Supplies | 3,088 | 0 | | 3,088 | 0 | 3,088 |
| 35 | Less: Customer Deposits | (9,800) | (1,176) | (15) | (10,976) | 0 | (10,976) |
| 36 | ADD: Cost of Taps - Net of Amortization | 0 | 43,324 | (16) | 43,324 | 0 | 43,324 |
| 37 | DEDUCT: Tap Fee Contributions - Netted | 0 | (43,324) | (17) | (43,324) | 0 | (43,324) |
| | TOTAL RATE BASE: | 155,209 | (18,829) | | 136,380 | 0 | 136,380 |

NOTE: The only purpose of showing rate base is to demonstrate the proposed effect of tap costs and tap fees in Adjustment Numbers (16) and (17).

A. D. HARE WATERWORKS COMPANY, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2000

| DESCRIPTION | ADVANCES | | OTHER FEES | | OPERATION | | MAINTENANCE | | DEPRECIATION | |
|---|--------------------|----------------|-------------|---------|-----------|----------|-------------|----------|--------------|---------|
| | MONTHLY SERVICE | FROM OWNERS | TAP FEES | (DHEC) | EXPENSES | EXPENSES | EXPENSES | EXPENSES | EXPENSE | EXPENSE |
| To adjust monthly revenues based on total volume consumption. | \$ 123 | | \$ | \$ | \$ | | | | \$ | \$ |
| To delete "Advances" made by Stockholders | | (8,000) | | | | | | | | |
| To eliminate tap fees from Operating Income for Return for rate making purposes (See related Adjustment Number (6)). | | | (3,900) | | | | | | | |
| To deduct DHEC testing fees from regulated revenues. The related expenses are also deducted in Adjustment No. (8) below. | | | | (8,903) | | | | | | |
| To adjust salaries and Social Security benefits to latest wage level: | | | | | 3,861 | | | | | |
| To amortize rate case expenses over a three-year period (\$3,300 x 1/3) | | | | | 1,100 | | | | | |
| To decrease expenses for Materials and Supplies, labor, equipment, etc., that should have been capitalized for meter installations during the test year (See also Adjustment Number (2) for revenue Adjustment also of \$3,900) | | | | | | | | | | 2,308 |
| To annualize depreciation expense based on end of year utility plant after deducting plant for tap costs by the Company since 1977. | | | | | | | | | | |
| | 123 | (8,000) | (3,900) | (8,903) | 4,961 | | | | (3,900) | 2,308 |
| | (1) | (2) | (3) | (4) | (5) | | | | (6) | (7) |

A. D. HARE WATERWORKS COMPANY, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2000

| DESCRIPTION OF ADJUSTMENT | DHEC | | INTEREST ON | | INTEREST EXPENSE |
|--|-----------------|------------------|--------------------|----------------------|---------------------|
| | TESTING FEES | TAXES-- OTHER | CONTRI- BUTIONS | CUSTOMER DEPOSITS | |
| | \$ | \$ | \$ | \$ | \$ |
| To eliminate testing fees assessed by the Department of Environmental Control (DHEC). The related assessments to the ratepayers are also deducted in adjustment (4) above. | (8,029) | | | | |
| To record PSC assessment at 1.1% on gross revenues of \$149,773 shown in Column (3), Line 8, Company Exhibit A. | | 1,648 | | | |
| To remove contributions to below-the-line for rate making purposes since these are disallowed by the Commission: | | | (100) | | |
| To annualize interest on Customer Deposits at the Commission rate of 12%. (See Adj. number (15) where this amount is added to Customer Deposits.): | | | | 1,176 | |
| To annualize interest expense on outstanding notes and mortgages: | | | | | (267) |
| | (8,029) | 1,648 | (100) | 1,176 | (267) |
| | (8) | (9) | (10) | (11) | (12) |

A. D. HARE WATERWORKS COMPANY, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TEST YEAR ENDED DECEMBER 31, 2000

| DESCRIPTION OF ADJUSTMENTS | COMPANY'S CONTRIBUTIONS | | | |
|--|-------------------------|-------------------------|----------------------|--|
| | PLANT IN SERVICE | DEPRECIATION RESERVE | CUSTOMER DEPOSITS | COST OF TAPS--NETTED IN AID -- NETTED |
| To reduce plant for the elimination of tap costs recorded since 1977: | \$ (20,029) | \$ | \$ | \$ |
| To reduce Depreciation Reserve for the Tap costs removed from the books in the above adjustment: | | (4,551) | | |
| To add to Depreciation Reserve the amount of annualized depreciation in adjustment number (7): | | 2,308 | | |
| To add to Customer Deposits the amount of interest annualized at 12% (See Adjustment No. (11)) | | | 1,176 | |
| To add to Rate Base the cost of taps by the Company - Net of Depreciation (See also Adjustment No. (17)) | | | | 43,324 |
| To deduct from rate base the Contributions In-Aid of Construction by the Rate Payer - Net of Amortization (See also Adjustment No. (16)) | | | | (43,324) |
| | (20,029) | (2,243) | 1,176 | 43,324 |
| | (13) | (14) | (15) | (16) |
| | | | | (17) |

A. D. HARE WATERWORKS COMPANY
PRO FORMA AND ACCOUNTING ADJUSTMENTS
FOR THE TEST PERIOD ENDING DECEMBER 31, 2000

| DESCRIPTION OF ADJUSTMENT | MONTHLY CHARGES | BASIC FACILITIES CHARGE (NEW) | GROSS RECEIPTS TAX | INCOME TAXES |
|---|--------------------|-------------------------------------|--------------------------|-----------------|
| | \$ | \$ | \$ | \$ |
| EFFECT OF PROPOSED INCREASE | | | | |
| To add to the adjusted revenues the proposed monthly services fees for the test year: | 50,411 | | | |
| To add to revenues the customers who are already receiving water through someone else's meter, paying the consumption charges, but not the basic facilities charge. (34 customers): | | 4,060 | | |
| To adjust gross receipts for the effect of the proposed increase at 1.1%: | | | 599 | |
| To increase state and federal income taxes for the effect of the proposed increase: | | | | 6,972 |
| | 50,411 | 4,060 | 599 | 6,972 |
| | (18) | (19) | (20) | (21) |

**COMPANY EXHIBIT A-2
WITNESS MAREADY**

**A. D. HARE WATERWORKS, INC.
CUSTOMER GROWTH
TEST YEAR ENDED DECEMBER 31, 2000**

COLUMN NUMBERS:

| LINE NO. | DESCRIPTION | (1) PER BOOKS | (2) ADJUST- MENTS | (3) AFTER ADJUSTMENTS | (4) PROPOSED INCREASE | (5) AFTER PROPOSED INCREASE |
|----------|-------------------------------|------------------|-------------------------|-----------------------------|--------------------------|-----------------------------------|
| 1 | | \$ | \$ | \$ | \$ | \$ |
| 2 | Net Operating Income | 825 | (18,477) | (17,652) | 46,900 | 29,248 |
| 3 | | | | | | |
| 4 | Growth Factor from below | 1.83% | 1.83% | 1.83% | 1.83% | 1.83% |
| 5 | | | | | | |
| 6 | Customer Growth to Exhibit A, | 0 | 0 | 0 | 858 | 535 |

NOTE: Since Net Operating Income in Column (3), 'After Adjustments', is negative, no Customer Growth is computed in Columns (1) through (3).

NUMBER OF CUSTOMERS

| | |
|---|-----|
| Beginning of Test Period, January 1, 2000 | 590 |
| End of Test Period, December 31, 2000 | 613 |
| Average (590 + 613 = 1203 / 2 = 602) | 602 |

GROWTH FACTOR:

End of Year Customers less Average Customers = Growth Factor

Divided by Average Customers

To Substitute: $\frac{613 - 602}{602} = 1.83\%$

602

COMPANY EXHIBIT A-3
WITNESS MAREADY

A. D. HARE WATERWORKS CO., INC.
CASH WORKING CAPITAL
FOR THE TEST PERIOD ENDING 12/31/00

| | PER BOOKS | ADJUST- MENTS | AFTER ADJUSTMENTS | PROPOSED INCREASE | AFTER PROPOSED INCREASE |
|-----------------------------------|----------------------|--------------------------|------------------------------|------------------------------|--|
| | \$ | \$ | \$ | \$ | \$ |
| Op. Expense, Exhibit A, Line 11 | 95,004 | 4,961 | 99,965 | 0 | 99,965 |
| Main. Expense, Exhibit A, Line 12 | 43,615 | (3,900) | 39,715 | 0 | 39,715 |
| Exp. for Cash Working Capital: | 138,619 | 1,061 | 139,680 | 0 | 139,680 |
| Multiply by 1/8 or 12.5% | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| Cash Working Cap., Exh.A, Line 33 | 17,327 | 133 | 17,460 | 0 | 17,460 |

COMPANY EXHIBIT A-4
WITNESS MAREADY

A. D. HARE WATERWORKS, INC.
TAP FEES COLLECTED
TEST PERIOD ENDING 12/31/00

| | (1) | (2) | (3) | (4) | (5) |
|----------|---|--------------------|--------------------|-------------------------|----------------------------|
| LINE NO. | YEAR | TAP FEES COLLECTED | YEARS AMORTIZATION | TIMES DEPRECIATION RATE | TOTAL AMORTIZATION RESERVE |
| | | \$ | | | \$ |
| 1 | 1977 | 1,200 | 23.5 | 0.04 | 1,128 |
| 2 | 1978 | 3,200 | 22.5 | 0.04 | 2,880 |
| 3 | 1979 | 3,000 | 21.5 | 0.04 | 2,580 |
| 4 | 1980 | 2,400 | 20.5 | 0.04 | 1,968 |
| 5 | 1981 | 2,400 | 19.5 | 0.04 | 1,872 |
| 6 | 1982 | 1,500 | 18.5 | 0.04 | 1,110 |
| 7 | 1983 | 3,300 | 17.5 | 0.04 | 2,310 |
| 8 | 1984 | 2,400 | 16.5 | 0.04 | 1,584 |
| 9 | 1985 | 4,800 | 15.5 | 0.04 | 2,976 |
| 10 | 1986 | 3,000 | 14.5 | 0.04 | 1,740 |
| 11 | 1987 | 1,500 | 13.5 | 0.04 | 810 |
| 12 | 1988 | 3,600 | 12.5 | 0.04 | 1,800 |
| 13 | 1989 | 1,800 | 11.5 | 0.04 | 828 |
| 14 | 1990 | 3,000 | 10.5 | 0.04 | 1,260 |
| 15 | | | | | |
| 16 | RATE CASE 1992 | 37,100 | | | 24,846 |
| 17 | | | | | |
| 18 | 1991 | 1,500 | 9.5 | 0.04 | 570 |
| 19 | 1992 | 2,700 | 8.5 | 0.04 | 918 |
| 20 | 1993 | 4,500 | 7.5 | 0.04 | 1,350 |
| 21 | 1994 | 7,800 | 6.5 | 0.04 | 2,028 |
| 22 | 1995 | 1,500 | 5.5 | 0.04 | 330 |
| 23 | 1996 | 8,100 | 4.5 | 0.04 | 1,458 |
| 24 | 1997 | 5,400 | 3.5 | 0.04 | 756 |
| 25 | 1998 | 1,800 | 2.5 | 0.04 | 180 |
| 26 | 1999 | 3,600 | 1.5 | 0.04 | 216 |
| 27 | 2000 | 3,600 | 0.5 | 0.04 | 72 |
| 28 | | | | | |
| 29 | | 40,500 | | | 7,878 |
| 30 | | | | | |
| 31 | GRAND TOTALS: | 77,600 | | | 32,724 |
| 32 | | | | | |
| 33 | Net Depreciated Tap Costs by the Company and/or | | | | |
| 34 | Contributions Paid by the Ratepayer: Netted from Line 31: | | | | 43,324 |
| 35 | | | | | |

COMPANY EXHIBIT A-5
WITNESS MAREADY

A. D. HARE WATERWORKS, INC.
PROPOSED RATES AND CHARGES
FOR THE TEST YEAR ENDED DECEMBER 31, 2000

| | PRESENT CHARGE \$ | PROPOSED CHARGE \$ | AMOUNT OF INCREASE \$ | INCREASE 0% | PROPOSED REVENUES \$ |
|---|-------------------------|--------------------------|-----------------------------|----------------|----------------------------|
| BASIC FACILITIES CHARGE | 8.00 | 9.95 | 1.95 | 24.38% | 71,879 |
| COMMODITY CHARGE | 2.10 | 2.95 | 0.85 | 40.48% | 126,065 |
| Annualized Monthly Charges, Company Exhibit A, Column (5), Line 2: | | | | | 197,944 |
| Less: Adjusted Annualized Monthly Charges, Company Exhibit A, Column (3), Line 2: | | | | | (147,533) |
| PROPOSED MONTHLY CHARGES | | | | | 50,411 |
| NEW CUSTOMER CHARGE | 20.00 | 20.00 | 0.00 | 0.00% | 0 |
| RECONNECTION CHARGE | 30.00 | 30.00 | 0.00 | 0.00% | 0 |
| BASIC FACILITIES CHARGE - NEW | 0 | 9.95 | 9.95 | | 4,060 |
| Total proposed increase, Exhibit A, Column 4, Line 8: | | | | | \$54,471 |

| | | | | |
|---------------------------------|-----|-----|-----|--------|
| TAP FEES (CONTRIBUTIONS IN AID) | 300 | 500 | 200 | 66.67% |
|---------------------------------|-----|-----|-----|--------|

| | OLD RATES | NEW RATES |
|---------------------------------|--------------|--------------|
| Basic Facilities Charge | \$8.00 | \$9.95 |
| Commodity Charge: (5,916 Gals.) | \$12.42 | \$17.45 |
| | \$20.42 | \$27.40 |
| Less: Present Rates | | (\$20.42) |
| Amount of Proposed Increase: | | \$6.98 |
| Percent Increase | | 34.18% |

| A. D. HARE WATERWORKS CO., INC. | | |
|---------------------------------|--|----------|
| PROPOSED TAP FEES | | |
| <u>LINE</u> <u>NUMBERS</u> | <u>FOR THE TWELVE MONTHS TEST YEAR DECEMBER 31, 2000</u> | |
| | | AMOUNT |
| | | \$ |
| 1 | Yoke Box (Meter Box) | \$82.85 |
| 2 | Meter | \$38.50 |
| 3 | Corporate Stops | \$24.62 |
| 4 | Saddle (2") | \$9.19 |
| 5 | Fitting | \$9.59 |
| 6 | Pipe | \$7.50 |
| 7 | Inserts (2 X \$2.00) | \$4.00 |
| 8 | Total Costs of Materials and Supplies: | \$176.25 |
| 9 | Add: Salaries | 164.45 |
| 10 | Add: Truck Usage (2),back hoe and trencher | 80.00 |
| 11 | Total, Lines 8 - 10: | 420.70 |
| 12 | Divide by Tax Rate Reciprocal (100.00% - 19.25%) | 0.8075 |
| 13 | Total Tap Costs: | 520.99 |
| 14 | | |
| 15 | PROPOSED TAP FEE: | \$500.00 |

A. D. HARE WATERWORKS, INC.
PROPOSED TAP FEES
HOURLY WAGES AND COSTS

| LINE NO. | DESCRIPTION OF TASKS | LENGTH OF TIME | BY WHOM | HOURLY SALARY \$ | FRACTION OF HOUR | ALLOCATED SALARY \$ |
|----------|--|----------------|---------------|------------------|------------------|---------------------|
| 1 | Customer calls. Explain Rules | 10 mins | Mrs. Hare | | | |
| 2 | Customers comes in, gives deposit, | 20 mins | Mrs. Hare | | | |
| 3 | amount added to deposit slip. Appt | | or April | | | |
| 4 | is made to meet Mr. Dare at the lot to | | | | | |
| 5 | show where the tap is to be put. | | | | | |
| 6 | Appt. made to meet to show location | 1/2 hour | Mrs. Sweat | | | |
| 7 | of tap. Card is set up, Customer | 2 hours | or Mrs. Hare | | | |
| 8 | # is assigned. For the next few | | | | | |
| 9 | days/weeks, property is checked | | Mr. Dan Hare | | | |
| 10 | to make sure there is no damage | | | | | |
| 11 | to water meter, connected date, etc. | | | | | |
| 12 | When water is cut on, address, | | | | | |
| 13 | phone #, etc., is recorded on card. | | | | | |
| 14 | Manager meets with customer. Shows | 30 mins | Mr. Dan Hare | 21.13 | 0.5 | 10.57 |
| 15 | layout of lot and preferable location of | | | | | |
| 16 | meter. Manager checks with local | | | | | |
| 17 | utilities to show where other lines | | | | | |
| 18 | are located. | | | | | |
| 19 | Three load up materials, hook up | 30 mins | Mr. Dan Hare | 21.13 | 0.5 | 10.57 |
| 20 | backhoe and trencher. | | D. J. Hare | 11.98 | 0.5 | 5.99 |
| 21 | | Use 1/2 | Cale or April | 5.00 | 0.5 | 2.50 |
| 22 | All three employees go to site to install | 2.5 hours | Mr. Dan Hare | 21.13 | 2.5 | 52.83 |
| 23 | meter. (Because of road guard, | | D. J. Hare | 11.98 | 2.5 | 29.95 |
| 24 | minimum of three (3) people.) | Use 1/2 | Cale or April | 5.00 | 2.5 | 12.50 |
| 25 | Also, may have to bore under road | | | | | |
| 26 | half of the time to hook on to main. | | | | | |
| 27 | Minimum of two (2) trucks. | | | | | |
| 28 | If drilling under highway, permit. | | | | | |
| 29 | Return to Office to unload. | 30 mins. | Mr. Dan Hare | 21.13 | 0.5 | 10.57 |
| 30 | | | D. J. Hare | 11.98 | 0.5 | 5.99 |
| 31 | | Use 1/2 | Cale or April | 5.00 | 0.5 | 2.50 |
| 32 | Total Wages for Tap Fees: | | | | | 143.95 |
| 33 | Add Social Security Taxes at 7.65% | | | | | 11.01 |
| 34 | Total Salaries and Social Security | | | | | 154.96 |
| 35 | Loading Factor for Holidays and Leave, three (3) Weeks. Divide by 94.23% | | | | | 0.9423 |
| 36 | Total Salaries charged to Tap Costs: | | | | | 164.45 |

**A. D. HARE WATERWORKS, INC.
PROPOSED TAP FEES
WAGES TO ALLOCATE TO TAPS**

| <u>EMPLOYEES NAME</u> | <u>WEEKLY SALARY</u> | <u>NO. OF HOURS/WK</u> | <u>FRACTION OF WEEK</u> | <u>HOURLY PAY</u> |
|-----------------------|--------------------------|----------------------------|-----------------------------|-----------------------|
| Mrs. Hare | \$249 | 40 | 1 | \$ 6.23 |
| Mr. Dan Hare | \$845 | 40 | 1 | 21.13 |
| Mr. D. J. Hare | \$479 | 40 | 1 | 11.98 |
| Mrs. Sweat | \$200 | 20 | 0.5 | 10.00 |
| Mr. Cale Sweat | 0 | 10 | 0 | 0.00 |

COMPANY EXHIBIT C
WITNESS MAREADY

A. D. HARE WATERWORKS, INC.
COMPARATIVE INCOME STATEMENTS AND RETAINED EARNINGS (DEFICIT)
FOR THE TWELVE MONTHS ENDED DECEMBER 31,

| LINE NO. | DESCRIPTION OF ACCOUNT | AMOUNT \$ YEAR 2000 | AMOUNT \$ YEAR 1999 |
|-------------|--|---------------------------|---------------------------|
| 1 | Total Revenues: | | |
| 2 | Metered Sales to Residential Customers: | 166,553 | 166,677 |
| 3 | Miscellaneous Sales | | |
| 4 | Tap Fee Revenues (Year 2000 = 13; Year 1999 = 10) | 3,900 | 3,000 |
| 5 | Total Revenues (Lines 2 + 3) | <u>170,453</u> | <u>169,677</u> |
| 6 | | | |
| 7 | Source of Supply Expenses: | 11,519 | 9,487 |
| 8 | | | |
| 9 | Water Treatment Expenses: | 540 | 630 |
| 10 | | | |
| 11 | Transmission and Distribution Expenses | 89,924 | 93,448 |
| 12 | | | |
| 13 | Customer Accounts Expense | 258 | 185 |
| 14 | | | |
| 15 | Administrative and General Expenses | 36,379 | 35,965 |
| 16 | | | |
| 17 | Depreciation Expense | 10,240 | 8,656 |
| 18 | | | |
| 19 | Taxes and Assessment Fees-- Other than Income Taxes | <u>16,135</u> | <u>20,489</u> |
| 20 | | | |
| 21 | Total Operating Expenses (Lines 6 through 18) | <u>164,995</u> | <u>168,860</u> |
| 22 | | | |
| 23 | TOTAL OPERATING INCOME (line 4 - Line 20) | 5508 | 817 |
| 24 | | | |
| 25 | ADD: Other Income and Deductions--Income | 2,410 | 431 |
| 26 | | | |
| 27 | DEDUCT: Interest Expense (Expense): | <u>(7,094)</u> | <u>(5,670)</u> |
| 28 | | | |
| 29 | NET INCOME (LOSS) (line 23 + line 25 less line 27) | 825 | (4,422) |
| 30 | | | |
| 31 | RETAINED EARNINGS, (DEFICIT) | <u>(16,328)</u> | <u>(11,906)</u> |
| 32 | | | |
| 33 | END OF YEAR RETAINED EARNINGS (DEFICIT, I. E., LOSSES) | <u>(15,503)</u> | <u>(16,328)</u> |

COMPANY EXHIBIT D
WITNESS MAREADY

A. D. HARE WATERWORKS, INC.
COMPARATIVE BALANCE SHEETS
AS OF DECEMBER 31,

| <u>ASSETS AND OTHER DEBITS</u> | CALENDAR YEAR 2000 \$ | CALENDAR YEAR 1999 \$ |
|---|-----------------------------|-----------------------------|
| Utility Plant in Service | 267,678 | 265,828 |
| less: Accumulated Depreciation Reserve | 124,101 | 113,851 |
| Net Plant in Service | 143,577 | 151,977 |
| Current and Accrued Assets: | | |
| Cash in Bank | 3,776 | 1,211 |
| Special Deposits (Customer Security) | 4,642 | 7,703 |
| Customer Accounts Receivable | 16,007 | 14,415 |
| Other Accounts Receivable | 1,865 | 82 |
| Other Materials and Supplies | 1,361 | 1,507 |
| Total Current Assets: | 27,601 | 21,918 |
| TOTAL UTILITY ASSETS: | 171,188 | 176,895 |
| <u>LIABILITIES AND OTHER CREDITS</u> | | |
| Common Stock Issued and Outstanding | 87,500 | 87,500 |
| Other Paid-in Capital | 14,008 | 14,008 |
| Unappropriated Retained Earnings (Losses) | (15,503) | (16,328) |
| Total Equity Capital | 86,005 | 85,180 |
| Other Long-Term Debt | 33,622 | 42,786 |
| Current and Accrued Liabilities: | | |
| Accounts Payable | 37,083 | 33,459 |
| Customer Deposits | 9,800 | 10,690 |
| Taxes, other than Income Taxes | 1,871 | 2,475 |
| Accrued Interest - Other Liabilities | 2,808 | 2,305 |
| Total Current and Accrued Liabilities | 51,561 | 48,979 |
| TOTAL LIABILITIES AND OTHER CREDITS: | 171,188 | 176,895 |

